



Siyathemba Local Municipality  
(Registration number NC077)  
Annual financial statements  
for the year ended 30/06/2016

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

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### Abbreviations

|         |  |
|---------|--|
| COID    | Compensation for Occupational Injuries and Diseases                |
| CRR     | Capital Replacement Reserve  |
| DBSA    | Development Bank of South Africa                                   |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP    | Generally Recognised Accounting Practice                           |
| GAMAP   | Generally Accepted Municipal Accounting Practice                   |
| HDF     | Housing Development Fund   |
| IAS     | International Accounting Standards                                 |
| IMFO    | Institute of Municipal Finance Officers                            |
| IPSAS   | International Public Sector Accounting Standards                   |
| ME's    | Municipal Entities   |
| MEC     | Member of the Executive Council                                    |
| MFMA    | Municipal Finance Management Act                                   |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)                   |

# **Siyathemba Local Municipality**

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30/06/2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the National Treasury for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page .

The annual financial statements set out on pages 3 to 74, which have been prepared on the going concern basis, were approved by the accounting officer on 31/08/2016 and were signed on its behalf by:

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**IWJ Stadhouer**  
**Municipal Manager**

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30/06/2016.

### 1. Incorporation

Siyathemba Local Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996).

### 2. Review of activities

#### Main business and operations

The municipality is engaged in category B local municipality as envisaged in section 155(1)(b) of the constitution and operates principally in South Africa.

Net deficit of the municipality was R 25 953 890 (2015: deficit R 12 942 774).

### 3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 4. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

|               |             |
|---------------|-------------|
| Name          | Nationality |
| IWJ Stadhouer | RSA         |

### 7. Bankers

ABSA Bank  
Prieska  
8940

### 8. Auditors

Office of the Auditor General will continue in office for the next financial period.

### 9. Jurisdiction

Siyathemba Local Municipality includes the following areas:

Prieska

Niekerkshoop

Marydale

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Statement of Financial Position as at 30/06/2016

| Figures in Rand                            | Note(s) | 2016               | 2015<br>Restated*  |
|--|---------|--------------------|--------------------|
| <b>Assets</b>                              |         |                    |                    |
| Current Assets                             |         |                    |                    |
| Inventories                                | 3       | 3 364 291          | 575 495            |
| Other financial assets                     | 4       | 2 856              | 2 482              |
| Operating lease asset                      | 5       | 30 053             | 31 363             |
| Receivables from non-exchange transactions | 6       | 688 880            | 597 884            |
| Consumer debtors                           | 7       | 8 829 395          | 7 519 159          |
| Cash and cash equivalents                  | 8       | 6 348 131          | 2 910 224          |
|  |         | <b>19 263 606</b>  | <b>11 636 607</b>  |
| Non-Current Assets                         |         |                    |                    |
| Investment property                        | 9       | 22 598 000         | 25 584 000         |
| Property, plant and equipment              | 10      | 421 350 413        | 435 008 763        |
| Intangible assets                          | 11      | 1 429 738          | 1 408 258          |
| Heritage assets                            | 12      | 1 226 200          | 1 226 200          |
| Other financial assets                     | 4       | 18 251             | 21 107             |
|  |         | <b>446 622 602</b> | <b>463 248 328</b> |
| <b>Total Assets</b>                        |         | <b>465 886 208</b> | <b>474 884 935</b> |
| <b>Liabilities</b>                         |         |                    |                    |
| Current Liabilities                        |         |                    |                    |
| Finance lease obligation                   | 13      | 356 239            | 421 476            |
| Payables from exchange transactions        | 14      | 45 446 260         | 28 672 072         |
| VAT payable                                | 15      | 2 032 796          | 3 031 940          |
| Consumer deposits                          | 16      | 712 072            | 646 825            |
| Employee benefit obligation                |         | 757 362            | 757 362            |
| Unspent conditional grants and receipts    | 17      | 4 600 043          | 50 128             |
| Provisions                                 | 18      | 730 831            | -                  |
|  |         | <b>54 635 603</b>  | <b>33 579 803</b>  |
| Non-Current Liabilities                    |         |                    |                    |
| Finance lease obligation                   | 13      | 734 797            | 1 091 036          |
| Employee benefit obligation                |         | 11 650 769         | 11 650 769         |
| Provisions                                 | 18      | 4 779 852          | 5 662 820          |
|  |         | <b>17 165 418</b>  | <b>18 404 625</b>  |
| <b>Total Liabilities</b>                   |         | <b>71 801 021</b>  | <b>51 984 428</b>  |
| <b>Net Assets</b>                          |         | <b>394 085 187</b> | <b>422 900 507</b> |
| Accumulated surplus                        |         | 394 085 187        | 422 900 507        |

\* See Note 43

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2016                 | 2015<br>Restated*   |
|---|---------|----------------------|---------------------|
| <b>Revenue</b>                                      |         |                      |                     |
| <b>Revenue from exchange transactions</b>           |         |                      |                     |
| Service charges                                     | 20      | 30 463 030           | 27 373 694          |
| Rental of facilities and equipment                  | 21      | 866 198              | 791 772             |
| Agency services                                     |         | 1 180 960            | 1 084 920           |
| Licences and permits                                |         | 200                  | 450                 |
| Other income  | 23      | 518 860              | 832 577             |
| Interest received - investment                      | 24      | 1 479 904            | 1 311 182           |
| <b>Total revenue from exchange transactions</b>     |         | <b>34 509 152</b>    | <b>31 394 595</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                     |
| <b>Taxation revenue</b>                             |         |                      |                     |
| Property rates                                      | 25      | 9 194 595            | 7 960 250           |
| <b>Transfer revenue</b>                             |         |                      |                     |
| Government grants & subsidies                       | 26      | 44 066 388           | 39 071 411          |
| Public contributions and donations                  | 27      | -                    | 439                 |
| Fines, Penalties and Forfeits                       |         | 93 722               | 33 591              |
| <b>Total revenue from non-exchange transactions</b> |         | <b>53 354 705</b>    | <b>47 065 691</b>   |
| <b>Total revenue</b>                                | 19      | <b>87 863 857</b>    | <b>78 460 286</b>   |
| <b>Expenditure</b>                                  |         |                      |                     |
| Employee related costs                              | 28      | (33 663 270)         | (31 988 158)        |
| Remuneration of councillors                         | 29      | (3 224 041)          | (1 969 274)         |
| Depreciation and amortisation                       | 30      | (25 036 813)         | (22 421 639)        |
| Finance costs                                       | 31      | (1 590 049)          | (503 020)           |
| Debt Impairment                                     | 32      | (8 928 913)          | (6 544 289)         |
| Collection costs                                    |         | (138 231)            | (359 575)           |
| Repairs and maintenance                             |         | (2 830 397)          | (2 308 769)         |
| Bulk purchases                                      | 33      | (22 564 219)         | (14 622 647)        |
| Contracted services                                 | 34      | (4 001 078)          | (3 228 441)         |
| General Expenses                                    | 35      | (11 840 736)         | (8 006 749)         |
| <b>Total expenditure</b>                            |         | <b>(113 817 747)</b> | <b>(91 952 561)</b> |
| <b>Operating deficit</b>                            | 37      | <b>(25 953 890)</b>  | <b>(13 492 275)</b> |
| Actuarial gains/losses                              |         | -                    | 549 501             |
| <b>Deficit for the year</b>                         |         | <b>(25 953 890)</b>  | <b>(12 942 774)</b> |

\* See Note 43

## Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

### Statement of Changes in Net Assets

| Figures in Rand                           | Accumulated surplus | Total net assets   |
|---|---------------------|--------------------|
| Opening balance as previously reported    | 435 487 261         | 435 487 261        |
| Adjustments                               |                     |                    |
| Correction of errors                      | 356 020             | 356 020            |
| <b>Balance at 01/07/2014 as restated*</b> | <b>435 843 281</b>  | <b>435 843 281</b> |
| Changes in net assets                     |                     |                    |
| Surplus for the year                      | (12 942 774)        | (12 942 774)       |
| Total changes                             | (12 942 774)        | (12 942 774)       |
| <b>Restated* Balance at 01/07/2015</b>    | <b>422 900 507</b>  | <b>422 900 507</b> |
| Changes in net assets                     |                     |                    |
| Surplus for the year                      | (25 953 890)        | (25 953 890)       |
| Other 1                                   | (2 861 430)         | (2 861 430)        |
| Total changes                             | (28 815 320)        | (28 815 320)       |
| <b>Balance at 30/06/2016</b>              | <b>394 085 187</b>  | <b>394 085 187</b> |
| Note(s)                                   |                     |                    |

\* See Note 43

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Cash Flow Statement

| Figures in Rand   | Note(s) | 2016                       | 2015<br>Restated*          |
|---|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>   |         |                            |                            |
| Sale of goods and services                                  |         | 52 251 740                 | 38 679 013                 |
| Grants  |         | 39 516 064                 | 39 435 900                 |
| Interest income   |         | 1 227 721                  | 1 311 182                  |
|   |         | <u>92 995 525</u>          | <u>79 426 095</u>          |
| <b>Payments</b>   |         |                            |                            |
| Employee costs  |         | (36 887 311)               | (33 957 432)               |
| Suppliers   |         | (39 696 468)               | (28 126 664)               |
| Finance costs   |         | (1 261 330)                | (503 019)                  |
|   |         | <u>(77 845 109)</u>        | <u>(62 587 115)</u>        |
| <b>Net cash flows from operating activities</b>             | 38      | <b><u>15 150 416</u></b>   | <b><u>16 838 980</u></b>   |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 10      | (11 371 311)               | (12 799 626)               |
| Purchase of other intangible assets                         | 11      | (28 632)                   | -                          |
| Proceeds from sale of financial assets                      |         | 2 483                      | 6 419                      |
| <b>Net cash flows from investing activities</b>             |         | <b><u>(11 399 943)</u></b> | <b><u>(12 799 626)</u></b> |
| <b>Cash flows from financing activities</b>                 |         |                            |                            |
| Increase in consumer deposits                               |         | 108 910                    | 45 410                     |
| Finance lease payments                                      |         | (421 476)                  | (570 347)                  |
| <b>Net cash flows from financing activities</b>             |         | <b><u>(312 566)</u></b>    | <b><u>(524 937)</u></b>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b><u>3 437 907</u></b>    | <b><u>3 514 417</u></b>    |
| Cash and cash equivalents at the beginning of the year      |         | 2 910 224                  | (604 193)                  |
| <b>Cash and cash equivalents at the end of the year</b>     | 8       | <b><u>6 348 131</u></b>    | <b><u>2 910 224</u></b>    |

\* See Note 43



## Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|                 | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|-----------------|--------------------|-------------|--------------|--|---|-----------|
| Figures in Rand |                    |             |              |  |   |           |

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|-----------------|-------------|--------------|------------------------------------|--|-----------|
|--|-----------------|-------------|--------------|------------------------------------|--|-----------|

Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue by source

|                                    |            |             |                   |            |                    |    |
|------------------------------------|------------|-------------|-------------------|------------|--------------------|----|
| Property rates                     | 13 000 000 | (22 000)    | <b>12 978 000</b> | 9 194 594  | <b>(3 783 406)</b> | 53 |
| Service charges                    | 37 295 000 | (8 894 000) | <b>28 401 000</b> | 30 463 030 | <b>2 062 030</b>   | 53 |
| Investment revenue                 | 1 904 000  | (197 000)   | <b>1 707 000</b>  | 1 479 904  | <b>(227 096)</b>   | 53 |
| Transfers recognised - operational | 29 395 000 | (3 319 640) | <b>26 075 360</b> | 28 211 365 | <b>2 136 005</b>   | 53 |
| Other own revenue                  | 7 707 000  | (3 658 000) | <b>4 049 000</b>  | 1 793 742  | <b>(2 255 258)</b> | 53 |

##### Total Revenue (excluding capital transfers and contributions)

|                   |                     |                   |                   |                    |  |
|-------------------|---------------------|-------------------|-------------------|--------------------|--|
| <b>89 301 000</b> | <b>(16 090 640)</b> | <b>73 210 360</b> | <b>71 142 635</b> | <b>(2 067 725)</b> |  |
|-------------------|---------------------|-------------------|-------------------|--------------------|--|

#### Expenditure by type

|                                 |              |             |                     |              |                     |    |
|---------------------------------|--------------|-------------|---------------------|--------------|---------------------|----|
| Employee costs                  | (41 756 000) | 13 485 000  | <b>(28 271 000)</b> | (33 663 270) | <b>(5 392 270)</b>  | 53 |
| Remuneration of councillors     | (2 740 000)  | 537 009     | <b>(2 202 991)</b>  | (3 224 041)  | <b>(1 021 050)</b>  | 53 |
| Debt impairment                 | (3 542 000)  | -           | <b>(3 542 000)</b>  | (8 928 913)  | <b>(5 386 913)</b>  | 53 |
| Depreciation & asset impairment | (11 547 000) | -           | <b>(11 547 000)</b> | (25 036 813) | <b>(13 489 813)</b> | 53 |
| Finance charges                 | (792 000)    | 44 541      | <b>(747 459)</b>    | (1 590 049)  | <b>(842 590)</b>    | 53 |
| Materials and bulk purchases    | (15 203 000) | (2 108 000) | <b>(17 311 000)</b> | (26 565 298) | <b>(9 254 298)</b>  | 53 |
| Transfers and grants            | (49 000)     | (24 346)    | <b>(73 346)</b>     | -            | <b>73 346</b>       | 53 |
| Other expenditure               | (18 377 000) | (1 290 000) | <b>(19 667 000)</b> | (14 809 365) | <b>4 857 635</b>    | 53 |

##### Total expenditure

|                     |                   |                     |                      |                     |  |
|---------------------|-------------------|---------------------|----------------------|---------------------|--|
| <b>(94 006 000)</b> | <b>10 644 204</b> | <b>(83 361 796)</b> | <b>(113 817 749)</b> | <b>(30 455 953)</b> |  |
|---------------------|-------------------|---------------------|----------------------|---------------------|--|

#### Surplus

|             |             |              |              |              |  |
|-------------|-------------|--------------|--------------|--------------|--|
| (4 705 000) | (5 446 436) | (10 151 436) | (42 675 114) | (32 523 678) |  |
|-------------|-------------|--------------|--------------|--------------|--|

##### Transfers recognised - capital

|             |   |             |              |             |    |
|-------------|---|-------------|--------------|-------------|----|
| (9 654 000) | - | (9 654 000) | (15 855 023) | (6 201 023) | 53 |
|-------------|---|-------------|--------------|-------------|----|

##### Surplus after capital transfers & contributions

|                     |                    |                     |                     |                     |  |
|---------------------|--------------------|---------------------|---------------------|---------------------|--|
| <b>(14 359 000)</b> | <b>(5 446 436)</b> | <b>(19 805 436)</b> | <b>(58 530 137)</b> | <b>(38 724 701)</b> |  |
|---------------------|--------------------|---------------------|---------------------|---------------------|--|

#### Surplus for the year

|                     |                    |                     |                     |                     |  |
|---------------------|--------------------|---------------------|---------------------|---------------------|--|
| <b>(14 359 000)</b> | <b>(5 446 436)</b> | <b>(19 805 436)</b> | <b>(58 530 137)</b> | <b>(38 724 701)</b> |  |
|---------------------|--------------------|---------------------|---------------------|---------------------|--|

The accounting policies on pages 12 to 42 and the notes on pages 43 to 74 form an integral part of the annual financial statements.

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Appropriation Statement

Figures in Rand

|  | Original budget     | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. MFMA) | Virement (i.t.o. council approved policy) | Final budget        | Actual outcome       | Unauthorised expenditure | Variance            | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|---------------------|---|--------------------------|---------------------------------|---|---------------------|----------------------|--------------------------|---------------------|-------------------------------------|--|
| <b>2016</b>  |                     |   |                          |                                 |   |                     |                      |                          |                     |                                     |  |
| <b>Financial Performance</b>   |                     |   |                          |                                 |   |                     |                      |                          |                     |                                     |  |
| Property rates   | 13 000 000          | (22 000)  | 12 978 000               | -                               | -   | 12 978 000          | 9 194 595            |                          | (3 783 405)         | 71 %                                | 71 %                                   |
| Service charges  | 37 295 000          | (8 894 000)   | 28 401 000               | -                               | -   | 28 401 000          | 30 463 030           |                          | 2 062 030           | 107 %                               | 82 %                                   |
| Investment revenue   | 1 904 000           | (197 000)   | 1 707 000                | -                               | -   | 1 707 000           | 1 479 904            |                          | (227 096)           | 87 %                                | 78 %                                   |
| Transfers recognised - operational                                   | 29 395 000          | (3 319 640)   | 26 075 360               | -                               | -   | 26 075 360          | 28 211 365           |                          | 2 136 005           | 108 %                               | 96 %                                   |
| Other own revenue  | 7 707 000           | (3 658 000)   | 4 049 000                | -                               | -   | 4 049 000           | 2 659 940            |                          | (1 389 060)         | 66 %                                | 35 %                                   |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>89 301 000</b>   | <b>(16 090 640)</b>                                 | <b>73 210 360</b>        | <b>-</b>                        | <b>-</b>                                  | <b>73 210 360</b>   | <b>72 008 834</b>    |                          | <b>(1 201 526)</b>  | <b>98 %</b>                         | <b>81 %</b>                            |
| Employee costs   | (41 756 000)        | 13 485 000  | (28 271 000)             | -                               | -   | (28 271 000)        | (33 663 270)         | 5 392 270                | (5 392 270)         | 119 %                               | 81 %                                   |
| Remuneration of councillors  | (2 740 000)         | 537 009   | (2 202 991)              | -                               | -   | (2 202 991)         | (3 224 041)          | 1 021 050                | (1 021 050)         | 146 %                               | 118 %                                  |
| Debt impairment  | (3 542 000)         | -   | (3 542 000)              |                                 |   | (3 542 000)         | (8 928 913)          | 5 386 913                | (5 386 913)         | 252 %                               | 252 %                                  |
| Depreciation and asset impairment                                    | (11 547 000)        | -   | (11 547 000)             |                                 |   | (11 547 000)        | (25 036 813)         | 13 547 359               | (13 489 813)        | 217 %                               | 217 %                                  |
| Finance charges  | (792 000)           | 44 541  | (747 459)                | -                               | -   | (747 459)           | (1 590 049)          | 842 590                  | (842 590)           | 213 %                               | 201 %                                  |
| Materials and bulk purchases   | (15 203 000)        | 2 108 000   | (13 095 000)             | -                               | -   | (13 095 000)        | (26 565 298)         | 13 470 298               | (13 470 298)        | 203 %                               | 175 %                                  |
| Transfers and grants   | (49 000)            | 24 346  | (24 654)                 | -                               | -   | (24 654)            | -                    | -                        | 24 654              | - %                                 | - %                                    |
| Other expenditure  | (18 377 000)        | 1 290 000   | (17 087 000)             | -                               | -   | (17 087 000)        | (14 809 365)         | -                        | 2 277 635           | 87 %                                | 81 %                                   |
| <b>Total expenditure</b>   | <b>(94 006 000)</b> | <b>17 488 896</b>                                   | <b>(76 517 104)</b>      | <b>-</b>                        | <b>-</b>                                  | <b>(76 517 104)</b> | <b>(113 817 749)</b> | <b>39 660 480</b>        | <b>(37 300 645)</b> | <b>149 %</b>                        | <b>121 %</b>                           |
| <b>Surplus/(Deficit)</b>   | <b>(4 705 000)</b>  | <b>1 398 256</b>                                    | <b>(3 306 744)</b>       | <b>-</b>                        | <b>-</b>                                  | <b>(3 306 744)</b>  | <b>(41 808 915)</b>  |                          | <b>(38 502 171)</b> | <b>1 264 %</b>                      | <b>889 %</b>                           |

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Appropriation Statement

Figures in Rand

|   | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance     | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|-----------------|---|--------------------------|--|---|--------------|----------------|--------------------------|--------------|-------------------------------------|--|
| Transfers recognised - capital                              | 9 654 000       | -   | 9 654 000                | -  | -   | 9 654 000    | 15 855 023     |                          | 6 201 023    | 164 %                               | 164 %                                  |
| Surplus (Deficit) after capital transfers and contributions | 4 949 000       | 1 398 256   | 6 347 256                | -  | -   | 6 347 256    | (25 953 892)   |                          | (32 301 148) | (409)%                              | (524)%                                 |
| Surplus/(Deficit) for the year                              | 4 949 000       | 1 398 256   | 6 347 256                | -  | -   | 6 347 256    | (25 953 892)   |                          | (32 301 148) | (409)%                              | (524)%                                 |
| <b>Capital expenditure and funds sources</b>                |                 |   |                          |  |   |              |                |                          |              |                                     |  |
| Total capital expenditure                                   | 9 654 000       | -   | 9 654 000                | -  | -   | 9 654 000    | 50 092 839     |                          | 40 438 839   | 519 %                               | 519 %                                  |

# **Siyathemba Local Municipality**

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Annual Financial Statements for the year ended 30/06/2016

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The financial statements are rounded to the nearest Rand

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

# **Siyathemba Local Municipality**

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

#### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note .

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

| Item            | Useful life |
|-----------------|-------------|
| Property - land | Indefinite  |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- Land held for long-term capital appreciation rather than for a Short-term sale in the ordinary course of operations;
- Land held for a currently undetermined future use;
- A building owned by the municipality( or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis and a building that is vacant but is leased out under one or more operating leases on a commercial basis to external parties

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

- The municipality may hold property to earn rental and for capital appreciation or both and this will be classified as investment property. Investment property generates cash flows largely independently of the other assets held by an entity.

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.4 Investment property (continued)

- The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows that are attributable not only to property, but also to other assets used in the production or supply process. For example, the municipality may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process. The Standard of GRAP on *Property, Plant and Equipment* applies to owner-occupied property.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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| Item | Depreciation method | Average useful life |
|------|---------------------|---------------------|
|      |                     |                     |

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# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Buildings                           | Straight line |               |
| • Improvements                      |               | 5 - 50 Years  |
| Infrastructure                      | Straight line |               |
| • Electricity                       |               | 10 - 50 Years |
| • Railways                          |               | 30 Years      |
| • Roads and Paving                  |               | 5 - 80 Years  |
| • Sanitation                        |               | 10 - 55 Years |
| Community                           | Straight line |               |
| • Community Facilities              |               | 5 - 50 Years  |
| • Recreational Facilities           |               | 10 - 40 Years |
| Other property, plant and equipment | Straight line |               |
| • Computer Equipment                |               | 5 - 10 Years  |
| • Emergency Equipment               |               | 5 - 10 Years  |
| • Furniture and Fittings            |               | 5 - 15 Years  |
| • Motor Vehicles                    |               | 7 - 10 Years  |
| • Office Equipment                  |               | 5 - 15 Years  |
| • Plant and Equipment               |               | 2 - 15 Years  |
| • Specialist Vehicles               |               | 10 - 15 Years |
| • Other Assets                      |               | 5 - 15 Years  |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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## Accounting Policies

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### 1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item                     | Useful life |
|--------------------------|-------------|
| Computer software, other | 4 years     |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Long term Receivables  
Receivables from Exchange Transactions  
Receivables from Non--Exchange Transactions  
Cash and cash Equivalents - Notice Deposits  
Cash and cash Equivalents - Call Deposits  
Cash and cash Equivalents - Bank  
Cash and cash Equivalents - Cash

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Long-term Liabilities  
Payables from Exchange Transactions  
Payables from Non-exchange Transactions

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# **Siyathemba Local Municipality**

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Annual Financial Statements for the year ended 30/06/2016

## **Accounting Policies**

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### **1.8 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.



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### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Impairment of cash-generating assets

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

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### 1.11 Impairment of cash-generating assets (continued)

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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### 1.11 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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## **Accounting Policies**

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### **1.12 Impairment of non-cash-generating assets (continued)**

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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### **1.12 Impairment of non-cash-generating assets (continued)**

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### 1.12 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



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### **1.14 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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### 1.14 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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### 1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

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### 1.16 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

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## **Accounting Policies**

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### **1.17 Revenue from exchange transactions (continued)**

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.18 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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### **1.18 Revenue from non-exchange transactions (continued)**

#### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### **Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.



# **Siyathemba Local Municipality**

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## **Accounting Policies**

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### **1.18 Revenue from non-exchange transactions (continued)**

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.19 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.20 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.21 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.22 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.23 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.24 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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### **1.24 Irregular expenditure (continued)**

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.25 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### **1.26 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

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## **Accounting Policies**

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### **1.26 Related parties (continued)**

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.27 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01/07/2016 or later periods:

| Standard/ Interpretation:  | Effective date:<br>Years beginning on or<br>after | Expected impact:  |
|--|---|---|
| <ul style="list-style-type: none"> <li>GRAP 18: Segment Reporting</li> </ul>                               | 01/04/2017  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| <ul style="list-style-type: none"> <li>GRAP 20: Related parties</li> </ul>                                 | 01/04/2017  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| <ul style="list-style-type: none"> <li>GRAP 32: Service Concession Arrangements: Grantor</li> </ul>        | 01/04/2016  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| <ul style="list-style-type: none"> <li>GRAP 108: Statutory Receivables</li> </ul>                          | 01/04/2016  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| <ul style="list-style-type: none"> <li>GRAP 16 (as amended 2015): Investment Property</li> </ul>           | 01/04/2016  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| <ul style="list-style-type: none"> <li>GRAP 17 (as amended 2015): Property, Plant and Equipment</li> </ul> | 01/04/2016  | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

|   |            |   |
|---|------------|---|
| • GRAP 109: Accounting by Principals and Agents                       | 01/04/2017 | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| • GRAP 21 (as amended 2015): Impairment of non-cash-generating assets | 01/04/2017 | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |
| • GRAP 26 (as amended 2015): Impairment of cash-generating assets     | 01/04/2017 | The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements |

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand                   | 2016             | 2015           |
|-----------------------------------|------------------|----------------|
| <b>3. Inventories</b>             |                  |                |
| Water                             | 92 126           | 82 914         |
| Unsold Properties Held for Resale | 2 986 000        | -              |
| Stores, materials and fuels       | 286 165          | 492 581        |
|                                   | <b>3 364 291</b> | <b>575 495</b> |

Inventories are held for own use and measured at the lower of Cost or Net Realisable Value

Unsold property held for resale relates to investment property not being used by council for basic service delivery. The date the decision were taken by council to dispose of the assets is the 28 June 2016. There is no active plan in place to dispose of the assets.

Additional text

### Inventory pledged as security

No Inventories have been pledged as security for Liabilities of the municipality

### 4. Other financial assets

#### At amortised cost

|                 |        |        |
|-----------------|--------|--------|
| Long term Loans | 21 107 | 23 589 |
|-----------------|--------|--------|

#### Non-current assets

|                   |        |        |
|-------------------|--------|--------|
| At amortised cost | 18 251 | 21 107 |
|-------------------|--------|--------|

#### Current assets

|                   |       |       |
|-------------------|-------|-------|
| At amortised cost | 2 856 | 2 482 |
|-------------------|-------|-------|

#### Financial assets at amortised cost

#### Financial assets at amortised cost past due but not impaired

Long term loans relates to housing loans financed by the municipality.

As from 01 January 2006 no loan agreement are entered into for the sale of houses. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into.

The Municipality does not hold deposits or any other security for its Long - term receivables.

No Long - term receivables have been pledged as security for the municipality's financial liabilities.

Summary of Long - term receivables is as follows:

|                          |               |               |
|--------------------------|---------------|---------------|
| Net Carrying Value       | 56 801        | 57 702        |
| Provision for impairment | (35 694)      | (34 113)      |
|                          | <b>21 107</b> | <b>23 589</b> |

#### Reconciliation of provision for impairment of financial assets at amortised cost

#### Long term Receivables

|                          |               |               |
|--------------------------|---------------|---------------|
| Opening balance          | 34 112        | 32 297        |
| Provision for impairment | 1 581         | 1 815         |
|                          | <b>35 693</b> | <b>34 112</b> |

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## Notes to the Annual Financial Statements

| Figures in Rand                           | 2016          | 2015          |
|---|---------------|---------------|
| <b>5. Operating lease asset (accrual)</b> |               |               |
| Non-current assets                        | -             | -             |
| Current assets                            | 30 053        | 31 363        |
| Non-current liabilities                   | -             | -             |
| Current liabilities                       | -             | -             |
|   | <b>30 053</b> | <b>31 363</b> |

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Operating lease assets relates to investment property rented out to the employees of the municipality and residents of Prieska.

### 6. Receivables from non-exchange transactions

|   |         |         |
|---|---------|---------|
| Consumer debtors - Other sundry debtors | 688 880 | 597 884 |
|---|---------|---------|

The municipality does not hold deposits of other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

|      |         |         |
|------|---------|---------|
| Rand | 698 456 | 597 884 |
|------|---------|---------|

### 7. Consumer debtors

#### Gross balances

|                          |                   |                   |
|--------------------------|-------------------|-------------------|
| Rates                    | 14 794 099        | 13 244 759        |
| Electricity              | 4 388 648         | 3 573 525         |
| Water                    | 27 834 739        | 22 436 564        |
| Sewerage                 | 9 724 561         | 8 977 613         |
| Refuse                   | 3 253 651         | 2 849 831         |
| Other (Consumer Debtors) | 2 841 916         | 1 987 350         |
|                          | <b>62 837 614</b> | <b>53 069 642</b> |

#### Less: Allowance for impairment

|                          |                     |                     |
|--------------------------|---------------------|---------------------|
| Rates                    | (12 802 247)        | (11 378 519)        |
| Electricity              | (2 485 897)         | (1 884 376)         |
| Water                    | (25 542 716)        | (20 552 175)        |
| Sewerage                 | (8 172 447)         | (7 538 817)         |
| Refuse                   | (2 756 746)         | (2 383 116)         |
| Other (Consumer Debtors) | (2 248 166)         | (1 813 480)         |
|                          | <b>(54 008 219)</b> | <b>(45 550 483)</b> |

#### Net balance

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Rates                    | 1 991 852        | 1 866 240        |
| Electricity              | 1 902 751        | 1 689 149        |
| Water                    | 2 292 023        | 1 884 389        |
| Sewerage                 | 1 552 114        | 1 438 796        |
| Refuse                   | 496 905          | 466 715          |
| Other (Consumer Debtors) | 593 750          | 173 870          |
|                          | <b>8 829 395</b> | <b>7 519 159</b> |

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## Notes to the Annual Financial Statements

| Figures in Rand  | 2016             | 2015             |
|--|------------------|------------------|
| <b>7. Consumer debtors (continued)</b>   |                  |                  |
| <b>Included in above is receivables from exchange transactions</b>                           |                  |                  |
| Electricity  | 1 902 751        | 1 689 149        |
| Water  | 2 292 023        | 1 884 389        |
| Sewerage   | 1 552 114        | 1 438 796        |
| Refuse   | 496 905          | 466 715          |
| Other (Consumer Debtors)   | 593 750          | 173 870          |
|  | <b>6 837 543</b> | <b>5 652 919</b> |
| <b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b> |                  |                  |
| Rates  | 1 991 852        | 1 866 240        |
| <b>Net balance</b>   | <b>8 829 395</b> | <b>7 519 159</b> |
| <b>Rates</b>   |                  |                  |
| Current (0 -30 days)   | 83 066           | 339 128          |
| 31 - 60 days   | 102 563          | 93 079           |
| 61 - 90 days   | 87 482           | 71 349           |
| 90+ days   | 1 718 741        | 1 362 684        |
|  | <b>1 991 852</b> | <b>1 866 240</b> |
| <b>Electricity</b>   |                  |                  |
| Current (0 -30 days)   | 1 015 848        | 964 326          |
| 31 - 60 days   | 201 405          | 188 005          |
| 61 - 90 days   | 151 876          | 106 254          |
| 90+ days   | 533 622          | 430 564          |
|  | <b>1 902 751</b> | <b>1 689 149</b> |
| <b>Water</b>   |                  |                  |
| Current (0 -30 days)   | 343 541          | 330 925          |
| 31 - 60 days   | 160 519          | 97 720           |
| 61 - 90 days   | 140 753          | 94 678           |
| 90+ days   | 1 647 210        | 1 361 066        |
|  | <b>2 292 023</b> | <b>1 884 389</b> |
| <b>Sewerage</b>  |                  |                  |
| Current (0 -30 days)   | 216 865          | 202 786          |
| 31 - 60 days   | 93 122           | 79 627           |
| 61 - 90 days   | 67 977           | 52 382           |
| 90+ days   | 1 174 150        | 1 104 001        |
|  | <b>1 552 114</b> | <b>1 438 796</b> |
| <b>Refuse</b>  |                  |                  |
| Current (0 -30 days)   | 84 157           | 78 854           |
| 31 - 60 days   | 38 861           | 31 423           |
| 61 - 90 days   | 22 718           | 21 468           |
| 90+ days   | 351 169          | 334 970          |
|  | <b>496 905</b>   | <b>466 715</b>   |



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## Notes to the Annual Financial Statements

| Figures in Rand   | 2016                | 2015                |
|---|---------------------|---------------------|
| <b>7. Consumer debtors (continued)</b>  |                     |                     |
| <b>Other (Consumer Debtors)</b>   |                     |                     |
| Current (0 -30 days)  | 19 031              | 58 463              |
| 31 - 60 days  | 7 728               | 7 444               |
| 61 - 90 days  | 6 407               | 6 724               |
| 90+ days  | 560 584             | 101 239             |
|   | <b>593 750</b>      | <b>173 870</b>      |
| <b>Reconciliation of allowance for impairment</b>   |                     |                     |
| Balance at beginning of the year  | (45 550 483)        | (39 425 623)        |
| Contributions to allowance  | (8 924 948)         | (6 542 474)         |
| Amounts written off as uncollectable  | 467 212             | 417 614             |
|   | <b>(54 008 219)</b> | <b>(45 550 483)</b> |
| <b>Consumer debtors pledged as security</b>   |                     |                     |
| None of the Receivables have been pledged as security for the municipality's financial liabilities.     |                     |                     |
| <b>Credit quality of consumer debtors</b>   |                     |                     |
| <b>Trade receivables</b>  |                     |                     |
| <b>Fair value of consumer debtors</b>   |                     |                     |
| Consumer debtors  | 8 829 395           | 7 519 159           |
| <b>Consumer debtors past due but not impaired</b>   |                     |                     |
| At 30/06/2016, R 8 435 160 (2015: R 7 519 160) were past due but not impaired.                          |                     |                     |
| The ageing of amounts past due but not impaired is as follows:  |                     |                     |
| <b>Consumer debtors impaired</b>  |                     |                     |
| As of 30/06/2016, consumer debtors of R 54 010 603 (2015: R 45 550 482) were impaired and provided for. |                     |                     |
| The amount of the provision was R 54 010 603 as of 30/06/2016 (2015: R 45 550 482).                     |                     |                     |
| The ageing of amounts consumer debtors impaired is as follows:  |                     |                     |
| The carrying amount of consumer debtors are denominated in the following currencies:                    |                     |                     |
| Rand  | 8 829 395           | 7 519 159           |
| <b>Reconciliation of allowance for impairment of consumer debtors</b>                                   |                     |                     |
| Opening balance   | (34 171 964)        | (29 195 930)        |
| Allowance for impairment  | (7 503 605)         | (5 393 648)         |
| Amounts written off as uncollectable  | 467 212             | 417 614             |
|   | <b>(41 208 357)</b> | <b>(34 171 964)</b> |

Other Receivables include outstanding debtors for various services, e.g. Arrangements, Deposits, Housing, Interest, Rentals, and Sundry Services like Garden Refuse, Sanitation Bags etc.

Consumer Debtors are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

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## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 7. Consumer debtors (continued)

The municipality receives applications that is processes. Deposits are required to be paid for all the electricity and water accounts opened. There are no consumers who represent more the 5% of the total balance of Receivables.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                  |                  |
|---------------------|------------------|------------------|
| Cash on hand        | 900              | 800              |
| Bank balances       | 1 369 591        | 1 631 841        |
| Short-term deposits | 4 977 640        | 1 277 583        |
|                     | <b>6 348 131</b> | <b>2 910 224</b> |

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

### Credit quality of cash at bank and short term deposits, excluding cash on hand

#### Credit rating

|    |           |           |
|----|-----------|-----------|
| AA | 6 347 231 | 2 909 424 |
|----|-----------|-----------|

### The municipality had the following bank accounts

| Account number / description               | Bank statement balances |                  |                | Cash book balances |                  |                  |
|--|-------------------------|------------------|----------------|--------------------|------------------|------------------|
|  | 30/06/2016              | 30/06/2015       | 30/06/2014     | 30/06/2016         | 30/06/2015       | 30/06/2014       |
| ABSA BANK - Current account - 40-5355-2997 | 1 336 487               | 1 580 133        | (147 531)      | 1 197 662          | 1 499 426        | (1 609 808)      |
| ABSA BANK - Account Type - 92-8664-0859    | 1 047                   | 1 004            | 1 002 808      | 1 047              | 1 004            | 1 002 808        |
| ABSA BANK - Account Type - 92-8604-1059    | 1 046                   | 1 003            | 1 005          | 1 046              | 1 003            | 1 005            |
| ABSA BANK - Account Type - '92-0404-6778   | 1 378                   | 1 306            | 1 003          | 19 854             | (45 140)         | (45 443)         |
| ABSA BANK - Account Type - 20-7537-0258    | -                       | -                | -              | 11 307             | -                | -                |
| ABSA BANK - Account Type - 20-7593-6903    | 3 106 365               | -                | -              | 3 106 365          | -                | -                |
| ABSA BANK - Account Type - 20-7593-6864    | 539 920                 | -                | -              | 539 920            | -                | -                |
| <b>Total</b>                               | <b>4 986 243</b>        | <b>1 583 446</b> | <b>857 285</b> | <b>4 877 201</b>   | <b>1 456 293</b> | <b>(651 438)</b> |

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## Notes to the Annual Financial Statements

|  | 2016 | 2015<br>Restated* |
|--|------|-------------------|
|--|------|-------------------|

### 9. Investment property

|                     | 2016                |  |                | 2015                |  |                |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
|                     | Cost /<br>Valuation | Accumulated depreciation and<br>accumulated impairment | Carrying value | Cost /<br>Valuation | Accumulated depreciation and<br>accumulated impairment | Carrying value |
| Investment property | 22 598 000          | -  | 22 598 000     | 25 584 000          | -  | 25 584 000     |

#### Reconciliation of investment property - 2016

|                     | Opening<br>balance | Transfers to<br>Property held<br>for sale | Total      |
|---------------------|--------------------|---|------------|
| Investment property | 25 584 000         | (2 986 000)                               | 22 598 000 |

#### Reconciliation of investment property - 2015

|                                     | Opening<br>balance | Total      |
|-------------------------------------|--------------------|------------|
| Investment property                 | 25 584 000         | 25 584 000 |
| Fair value of investment properties | 22 598 000         | 25 584 000 |

#### Pledged as security

No Investment Property had been pledged as security for any liabilities of the municipality:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Revenue recognised on rental on investment property

Amounts recognised in surplus and deficit for the year.

|   |         |         |
|---|---------|---------|
| Rental revenue from investment property | 769 117 | 745 664 |
|---|---------|---------|

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal:

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

\* See Note 43

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

2016

2015  
Restated\*

### 10. Property, plant and equipment

|                    | 2016                |   |                    | 2015                |   |                    |
|--------------------|---------------------|---|--------------------|---------------------|---|--------------------|
|                    | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Land and Buildings | 91 884 368          | (10 258 722)  | 81 625 646         | 91 884 368          | (8 145 096)   | 83 739 272         |
| Office equipment   | 10 120 099          | (5 884 551)   | 4 235 548          | 9 724 476           | (5 082 899)   | 4 641 577          |
| Infrastructure     | 444 398 514         | (109 673 742)   | 334 724 772        | 433 422 827         | (87 886 347)  | 345 536 480        |
| Leased Assets      | 3 149 933           | (2 385 486)   | 764 447            | 3 149 933           | (2 058 499)   | 1 091 434          |
| <b>Total</b>       | <b>549 552 914</b>  | <b>(128 202 501)</b>  | <b>421 350 413</b> | <b>538 181 604</b>  | <b>(103 172 841)</b>  | <b>435 008 763</b> |

#### Reconciliation of property, plant and equipment - 2016

|                    | Opening<br>balance | Additions         | Depreciation        | Impairment<br>loss | Total              |
|--------------------|--------------------|-------------------|---------------------|--------------------|--------------------|
| Land and Buildings | 83 739 272         | -                 | (2 113 626)         | -                  | 81 625 646         |
| Office equipment   | 4 641 577          | 395 624           | (663 264)           | (138 389)          | 4 235 548          |
| Infrastructure     | 345 536 480        | 10 975 687        | (19 300 026)        | (2 487 369)        | 334 724 772        |
| Leased Assets      | 1 091 434          | -                 | (326 987)           | -                  | 764 447            |
|                    | <b>435 008 763</b> | <b>11 371 311</b> | <b>(22 403 903)</b> | <b>(2 625 758)</b> | <b>421 350 413</b> |

#### Reconciliation of property, plant and equipment - 2015

|                    | Opening<br>balance | Additions         | Depreciation        | Total              |
|--------------------|--------------------|-------------------|---------------------|--------------------|
| Land and Buildings | 85 852 898         | -                 | (2 113 626)         | 83 739 272         |
| Office equipment   | 5 366 406          | 70 133            | (794 962)           | 4 641 577          |
| Infrastructure     | 351 874 948        | 12 729 493        | (19 067 961)        | 345 536 480        |
| Leased Assets      | 1 529 725          | -                 | (438 291)           | 1 091 434          |
|                    | <b>444 623 977</b> | <b>12 799 626</b> | <b>(22 414 840)</b> | <b>435 008 763</b> |

#### Pledged as security

None of the carrying value of assets are pledged as security:

#### Assets subject to finance lease (Net carrying amount)

|               |         |           |
|---------------|---------|-----------|
| Leased Assets | 764 447 | 1 091 434 |
|---------------|---------|-----------|

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Some of the property and equipment have been fully depreciated and are still in use at 30 June 2016. The municipality has previously planned to replace these assets but failed due to budgetary constraints.

\* See Note 43

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

2016  
2015  
Restated\*

### 11. Intangible assets

|                   | 2016                |   |                | 2015                |   |                |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Computer Software | 1 455 825           | (26 087)  | 1 429 738      | 1 427 193           | (18 935)  | 1 408 258      |

#### Reconciliation of intangible assets - 2016

|                   | Opening<br>balance | Additions | Amortisation | Total     |
|-------------------|--------------------|-----------|--------------|-----------|
| Computer Software | 1 408 258          | 28 632    | (7 152)      | 1 429 738 |

#### Reconciliation of intangible assets - 2015

|                   | Opening<br>balance | Amortisation | Total     |
|-------------------|--------------------|--------------|-----------|
| Computer Software | 1 415 056          | (6 798)      | 1 408 258 |

#### Pledged as security

No intangible assets had been pledged as security for any liabilities of the municipality:

Some of the Intangible assets have been fully depreciated and are still in use at 30 June 2016. The municipality has previously planned to replace these assets but failed due to budgetary constraints.

### 12. Heritage assets

|                      | 2016                |                                     |                | 2015                |                                     |                |
|----------------------|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
|                      | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value |
| Historical buildings | 1 226 200           | -                                   | 1 226 200      | 1 226 200           | -                                   | 1 226 200      |

#### Reconciliation of heritage assets 2016

|                      | Opening<br>balance | Total     |
|----------------------|--------------------|-----------|
| Historical buildings | 1 226 200          | 1 226 200 |

#### Reconciliation of heritage assets 2015

|                      | Opening<br>balance | Total     |
|----------------------|--------------------|-----------|
| Historical buildings | 1 226 200          | 1 226 200 |

\* See Note 43

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## Notes to the Annual Financial Statements

|   | 2016                    | 2015<br>Restated*       |
|---|-------------------------|-------------------------|
| <b>12. Heritage assets (continued)</b>  |                         |                         |
| <b>Restrictions on heritage assets</b>  |                         |                         |
| No Restrictions apply to any of the Heritage Assets of the municipality.                |                         |                         |
| <b>Pledged as security</b>  |                         |                         |
| No Heritage assetshad been pledged as security for any liabilities of the municipality: |                         |                         |
| <b>13. Finance lease obligation</b>   |                         |                         |
| <b>Minimum lease payments due</b>   |                         |                         |
| - within one year   | 448 332                 | 549 532                 |
| - in second to fifth year inclusive   | 802 563                 | 1 250 895               |
|   | <u>1 250 895</u>        | <u>1 800 427</u>        |
| less: future finance charges  | (159 859)               | (287 915)               |
| <b>Present value of minimum lease payments</b>  | <u><b>1 091 036</b></u> | <u><b>1 512 512</b></u> |
| <b>Present value of minimum lease payments due</b>                                      |                         |                         |
| - within one year   | 354 090                 | 418 671                 |
| - in second to fifth year inclusive   | 730 233                 | 1 084 324               |
| - Accrued Interest  | (6 712)                 | (9 518)                 |
|   | <u><b>1 077 611</b></u> | <u><b>1 493 477</b></u> |
| Non-current liabilities   | 734 797                 | 1 091 036               |
| Current liabilities   | 356 239                 | 421 476                 |
|   | <u><b>1 091 036</b></u> | <u><b>1 512 512</b></u> |

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 5-7 years and the average effective borrowing rate was 10,5% for Nashua and Gestetner lease and Prime + 1% for the lease of motor vehicles. (2015: 10,5% and Prime +1%)

The prime rate at inception of the lease was 9%

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The final payment date for the motor leases which are linked to prime is as follows:

315SJ 4X4 Backhoe Loader - 28/02/2019

CS533E XL Vibratory Soil Compactor - 01/02/2019

Nissan 12 4X2N - 01/06/2019

\* See Note 43

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

|   | 2016              | 2015<br>Restated* |
|---|-------------------|-------------------|
| <b>14. Payables from exchange transactions</b>      |                   |                   |
| Trade payables                                      | 36 163 776        | 20 322 133        |
| Payments received in advanced - contract in process | 187 551           | 181 145           |
| Accrued leave pay                                   | 2 560 103         | 1 792 762         |
| Accrued bonus                                       | 1 138 715         | 955 235           |
| Deposits received                                   | 3 000             | 3 000             |
| Retentions  | 300 348           | 300 348           |
| Creditors payments in advance                       | 599               | 599               |
| Salary Control Account                              | 5 092 168         | 5 116 850         |
|   | <b>45 446 260</b> | <b>28 672 072</b> |

Staff Bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate if the amount due at reporting date.

Staff leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

### 15. VAT payable

|                      |           |           |
|----------------------|-----------|-----------|
| Tax refunds payables | 2 032 796 | 3 031 940 |
|----------------------|-----------|-----------|

The value added tax recoverable from, or payable to, the taxation authority presented in this note and the Statement of Financial Position is on the accrual basis while the municipality is registered on cash basis according to section 15 of the Value-added Tax Act, 1991 (Act 89 of 1991).

### 16. Consumer deposits

|             |         |         |
|-------------|---------|---------|
| Electricity | 712 072 | 646 825 |
|-------------|---------|---------|

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|  |                  |               |
|--|------------------|---------------|
| Department of Sports and Culture (Library) | 234 172          | 50 128        |
| Municipal Infrastructure Grant             | 3 495 871        | -             |
| Department Energy                          | 870 000          | -             |
|  | <b>4 600 043</b> | <b>50 128</b> |

#### Movement during the year

|                                      |                  |               |
|--------------------------------------|------------------|---------------|
| Balance at the beginning of the year | 50 128           | 414 178       |
| Additions during the year            | 4 549 915        | 50 128        |
| Refunded during the year             | -                | (414 178)     |
|                                      | <b>4 600 043</b> | <b>50 128</b> |
| Non-current liabilities              | -                | -             |
| Current liabilities                  | 4 600 043        | 50 128        |
|                                      | <b>4 600 043</b> | <b>50 128</b> |

See note 26 for reconciliation of grants from National/Provincial Government.

\* See Note 43

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## Notes to the Annual Financial Statements

|  | 2016 | 2015<br>Restated* |
|--|------|-------------------|
|--|------|-------------------|

### 18. Provisions

#### Reconciliation of provisions - 2016

|                              | Opening<br>Balance | Change to<br>provision due<br>to passage of<br>time | Reduction<br>due to re-<br>measurement<br>or settlement<br>without cost<br>to entity | Total            |
|------------------------------|--------------------|---|--|------------------|
| Environmental rehabilitation | 5 662 820          | 424 328   | (576 465)  | 5 510 683        |
| Non-current liabilities      |                    |   | 4 779 852  | 5 662 820        |
| Current liabilities          |                    |   | 730 831  | -                |
|                              |                    |   | <b>5 510 683</b>   | <b>5 662 820</b> |

#### Environmental rehabilitation provision

The estimated rehabilitation cost are for the landfill sites at Prieska, Marydale and Niekerkshoop. Landfill sites were revalued in the current year Engineering Aces. The reassessment of the provision lead to an decrease in the current year provision of R152 137.

The methodology to determine the 2016 provision disclosure was as follows:

- The rehabilitation costs (direct and indirect) were calculated in 2016 prices for each landfill
- The 2016 costs were escalated at CPI 6.59% (services) and CPAP 7.90% (construction items) to obtain their future values at the time they are assumed to arise
- The future costs were then discounted (at an appropriate pre-tax rate) to 2016 to obtain the long term provision for closure
- The short term provision for closure is made by 'unwinding the discount', i.e. it reflects the interest charge on the opening balance required in 2017 financial year

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs of R5 510 683 (2015: R5 662 820) to restore the sites at the end of their useful lives.

### 19. Revenue

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Service charges                    | 30 463 030        | 27 373 694        |
| Rental of facilities and equipment | 866 198           | 791 772           |
| Agency services                    | 1 180 960         | 1 084 920         |
| Licences and permits               | 200               | 450               |
| Other income                       | 518 860           | 832 577           |
| Interest received - investment     | 1 479 904         | 1 311 182         |
| Property rates                     | 9 194 595         | 7 960 250         |
| Government grants & subsidies      | 44 066 388        | 39 071 411        |
| Public contributions and donations | -                 | 439               |
| Fines, Penalties and Forfeits      | 93 722            | 33 591            |
|                                    | <b>87 863 857</b> | <b>78 460 286</b> |

\* See Note 43



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|   | 2016              | 2015<br>Restated* |
|---|-------------------|-------------------|
| <b>19. Revenue (continued)</b>  |                   |                   |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                   |                   |
| Service charges   | 30 463 030        | 27 373 694        |
| Rental of facilities and equipment  | 866 198           | 791 772           |
| Agency services   | 1 180 960         | 1 084 920         |
| Licences and permits  | 200               | 450               |
| Other income  | 518 860           | 832 577           |
| Interest received - investment  | 1 479 904         | 1 311 182         |
|   | <b>34 509 152</b> | <b>31 394 595</b> |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                   |                   |
| <b>Taxation revenue</b>   |                   |                   |
| Property rates  | 9 194 595         | 7 960 250         |
| <b>Transfer revenue</b>   |                   |                   |
| Government grants & subsidies   | 44 066 388        | 39 071 411        |
| Public contributions and donations  | -                 | 439               |
| Fines, Penalties and Forfeits   | 93 722            | 33 591            |
|   | <b>53 354 705</b> | <b>47 065 691</b> |
| <b>20. Service charges</b>  |                   |                   |
| Sale of electricity   | 6 875 173         | 6 206 117         |
| Sale of water   | 12 768 804        | 11 444 889        |
| Sewerage and sanitation charges   | 7 707 118         | 6 941 912         |
| Refuse removal  | 3 111 935         | 2 780 776         |
|   | <b>30 463 030</b> | <b>27 373 694</b> |
| Revenue foregone amounts to R117,80 (2015: R1449,45).   |                   |                   |
| <b>21. Rental of facilities and equipment</b>   |                   |                   |
| <b>Facilities and equipment</b>   |                   |                   |
| Rental of facilities  | 866 198           | 791 772           |
| <b>22. Other revenue</b>  |                   |                   |
| Other income  | 518 860           | 832 577           |

\* See Note 43

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|                             | 2016           | 2015<br>Restated* |
|-----------------------------|----------------|-------------------|
| <b>23. Other income</b>     |                |                   |
| Administration Fees         | 59 653         | 48 439            |
| Building Plan Fees          | 37 602         | 22 098            |
| Charges for Installation    | 70 798         | 56 406            |
| Charges for Re-Installation | 11 355         | 36 528            |
| Gardenrefuse and Garbage    | 80 665         | 81 306            |
| Internal Recoveries         | 33 491         | 20 648            |
| Other Revenue               | 152 558        | 437 555           |
| Seta Income                 | 10 289         | 47 948            |
| Tombfees                    | 39 569         | 33 492            |
| Valuation Certificate       | 22 880         | 47 786            |
| Sale of Sand                | -              | 371               |
|                             | <b>518 860</b> | <b>832 577</b>    |

The amounts disclosed above for Other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

## 24. Investment revenue

### Interest revenue

|   |                  |                  |
|---|------------------|------------------|
| Bank  | 383 089          | 104 364          |
| Long-term debtors                               | 4 560            | (5 261)          |
| Interest charged on trade and other receivables | 1 092 255        | 1 212 079        |
|   | <b>1 479 904</b> | <b>1 311 182</b> |

\* See Note 43

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## Notes to the Annual Financial Statements

|                           | 2016             | 2015<br>Restated* |
|---------------------------|------------------|-------------------|
| <b>25. Property rates</b> |                  |                   |
| <b>Rates received</b>     |                  |                   |
| Commercial                | (2 961 024)      | 5 779 427         |
| State                     | 1 928 855        | 1 774 498         |
| Industrial                | 6 948            | -                 |
| Agricultural              | 10 219 934       | 635 904           |
| Less: Income forgone      | (118)            | (229 579)         |
|                           | <b>9 194 595</b> | <b>7 960 250</b>  |

Property rates are levied on the value of the land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2009. A general valuation has been performed during the financial year and will be applied with effect 1 July 2013.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates;

Residential Properties: 2.143c (2015: 1.999c)

Commercial: 2.787c (2015: 2.5999c)

Agriculture: 0.029c (2015: 0.027c)

State: 4.287c (2015: 3.999c)

Municipal: 0c (20115:0c)

A Rebate of R15,000.00 was allowed on residential propertoies whilst a discount of (20%) was granted on properties owned by the State and a discount of (30%) on farms

Rates are levied monthly on property owners and are payable the 15th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September,. Interest is levied at a rate determined by council on outstanding rates amounts.

Rates are levied monthly on property owners and are payable the end each month. Interest is levied at a rate determined by council on outstanding rates amounts yearly with the budget process.

\* See Note 43

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## Notes to the Annual Financial Statements

|   | 2016              | 2015<br>Restated* |
|---|-------------------|-------------------|
| <b>26. Government grants and subsidies</b>  |                   |                   |
| <b>Operating grants</b>   |                   |                   |
| Equitable share   | 24 220 409        | 22 443 701        |
| Finance Municipal Grant   | 1 875 000         | 1 800 000         |
| Municipal System Improvement Grant  | 930 000           | 934 000           |
| Department of Sports and Culture (Library)  | 1 185 956         | 840 872           |
|   | <b>28 211 365</b> | <b>26 018 573</b> |
| <b>Capital grants</b>   |                   |                   |
| Department of Water Affairs   | 2 066 894         | 1 214 820         |
| Municipal Infrastructure Grant  | 12 158 129        | 9 708 000         |
| Department Provincial Local Government and Housing  | -                 | 630 018           |
| Expanded Public Works   | 1 000 000         | 1 000 000         |
| Department Energy   | 630 000           | 500 000           |
|   | <b>15 855 023</b> | <b>13 052 838</b> |
|   | <b>44 066 388</b> | <b>39 071 411</b> |
| <b>Conditional and Unconditional</b>  |                   |                   |
| Included in above are the following grants and subsidies received:  |                   |                   |
| Conditional grants received   | 19 845 979        | 16 627 710        |
| Unconditional grants received   | 24 220 409        | 22 443 701        |
|   | <b>44 066 388</b> | <b>39 071 411</b> |
| <b>Equitable Share</b>  |                   |                   |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.  |                   |                   |
| The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.          |                   |                   |
| <b>Financial Management Grant</b>   |                   |                   |
| Balance unspent at beginning of year  | -                 | -                 |
| Current-year receipts   | 1 875 000         | 1 800 000         |
| Conditions met - transferred to revenue   | (1 875 000)       | (1 800 000)       |
|   | <b>-</b>          | <b>-</b>          |
| Conditions still to be met - remain liabilities (see note 17).  |                   |                   |
| The Financial Management Grant is paid by National Treasury to Municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld |                   |                   |
| <b>Municipal Systems Improvement Grant</b>  |                   |                   |
| Balance unspent at beginning of year  | -                 | -                 |
| Current-year receipts   | 930 000           | 934 000           |
| Conditions met - transferred to revenue   | (930 000)         | (934 000)         |
|   | <b>-</b>          | <b>-</b>          |

\* See Note 43

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## Notes to the Annual Financial Statements

|  | 2016             | 2015<br>Restated* |
|--|------------------|-------------------|
| <b>26. Government grants and subsidies (continued)</b>   |                  |                   |
| Conditions still to be met - remain liabilities (see note 17).   |                  |                   |
| The Municipal System Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld   |                  |                   |
| <b>Department of Sports and Culture (Library)</b>  |                  |                   |
| Balance unspent at beginning of year   | 50 128           | -                 |
| Current-year receipts  | 1 370 000        | 891 000           |
| Conditions met - transferred to revenue  | (1 185 956)      | (840 872)         |
|  | <b>234 172</b>   | <b>50 128</b>     |
| Conditions still to be met - remain liabilities (see note 17).   |                  |                   |
| This grant was received for the building and maintenance of libraries in the district. No funds have been withheld.  |                  |                   |
| <b>Department of Water Affairs</b>   |                  |                   |
| Balance unspent at beginning of year   | -                | -                 |
| Current-year receipts  | 2 066 894        | 1 214 820         |
| Conditions met - transferred to revenue  | (2 066 894)      | (1 214 820)       |
|  | <b>-</b>         | <b>-</b>          |
| Conditions still to be met - remain liabilities (see note 17).   |                  |                   |
| This grant was used for the refurbishment of water schemes transferred from DWA to the municipality. No funds have been withheld.  |                  |                   |
| <b>Municipal Infrastructure Grant</b>  |                  |                   |
| Balance unspent at beginning of year   | -                | -                 |
| Current-year receipts  | 15 654 000       | 9 708 000         |
| Conditions met - transferred to revenue  | (12 158 129)     | (9 708 000)       |
|  | <b>3 495 871</b> | <b>-</b>          |
| Conditions still to be met - remain liabilities (see note 17).   |                  |                   |
| The Municipal Infrastructure Grant was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld. |                  |                   |
| <b>Department Provincial Local Government and Housing (DPLG&amp;H)</b>   |                  |                   |
| Balance unspent at beginning of year   | -                | -                 |
| Current-year receipts  | -                | 630 018           |
| Conditions met - transferred to revenue  | -                | (630 018)         |
|  | <b>-</b>         | <b>-</b>          |
| Conditions still to be met - remain liabilities (see note 17).   |                  |                   |

\* See Note 43

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|   | 2016           | 2015<br>Restated* |
|---|----------------|-------------------|
| <b>26. Government grants and subsidies (continued)</b>  |                |                   |
| The grant was allocated for the funding of various projects e.g LED Strategy, IDP, PMS, ect to assist in the improvement of the performance of the municipality. No funds have been withheld. |                |                   |
| <b>Expanded Public Works</b>  |                |                   |
| Balance unspent at beginning of year  | -              | -                 |
| Current-year receipts   | 1 000 000      | 1 000 000         |
| Conditions met - transferred to revenue   | (1 000 000)    | (1 000 000)       |
|   | <u>-</u>       | <u>-</u>          |
| Conditions still to be met - remain liabilities (see note 17).  |                |                   |
| The Expanded Public Works Programme Grant was allocated to the municipality for enviromental and water infrastructure projects. No funds have been withheld.                                  |                |                   |
| <b>Department Energy</b>  |                |                   |
| Balance unspent at beginning of year  | -              | 414 178           |
| Current-year receipts   | 1 500 000      | 500 000           |
| Conditions met - transferred to revenue   | (630 000)      | (500 000)         |
| Other Adjustments/Refunds   | -              | (414 178)         |
|   | <u>870 000</u> | <u>-</u>          |
| Conditions still to be met - remain liabilities (see note 17).  |                |                   |
| Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld.  |                |                   |
| <b>27. Public contributions and donations</b>   |                |                   |
| Public contributions and donations  | <u>-</u>       | <u>439</u>        |

\* See Note 43

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## Notes to the Annual Financial Statements

|  | 2016              | 2015<br>Restated* |
|--|-------------------|-------------------|
| <b>28. Employee related costs</b>                                  |                   |                   |
| Basic  | 21 394 251        | 20 337 872        |
| Bonus  | 1 760 001         | 1 423 745         |
| Medical aid - company contributions                                | 1 095 709         | 1 135 093         |
| UIF  | 130 371           | 276 848           |
| SDL  | 32 630            | -                 |
| Leave pay provision charge   | 1 017 061         | (112 219)         |
| Short term benefit 1   | -                 | 955 578           |
| Short term benefit 2   | 36 452            | 32 152            |
| Defined contribution plans   | -                 | 576 147           |
| Travel, motor car, accommodation, subsistence and other allowances | 1 067 505         | 1 041 013         |
| Overtime payments  | 1 195 281         | 1 309 558         |
| Long-service awards  | 234 208           | 210 887           |
| Acting allowances  | 599 496           | 625 074           |
| Housing benefits and allowances                                    | 304 971           | 53 650            |
| Contributions Pension funds  | 3 430 281         | 3 172 794         |
| Industrial Council   | 77 094            | 18 155            |
| Telephone/ Cell - Allowances                                       | 47 528            | 66 120            |
| Other - Allowances   | 654 617           | 429 077           |
| Registration Fees  | 438 611           | 286 578           |
| Termination benefits   | 147 203           | 150 036           |
|  | <b>33 663 270</b> | <b>31 988 158</b> |

### Remuneration of municipal manager - IWJ Stadhouer

|   |                  |          |
|---|------------------|----------|
| Annual Remuneration                             | 444 535          | -        |
| Car Allowance                                   | 94 651           | -        |
| Performance Bonuses                             | -                | -        |
| Contributions to UIF, Medical and Pension Funds | 41 020           | -        |
| Other (SALGA BC)                                | 131              | -        |
|   | <b>(580 337)</b> | <b>-</b> |

IWJ Stadhouer was appointed as the municipal manager in the 2016 Financial year.

Mr Stadhouer took over from Mr Alexander in October 2015.

### Remuneration of chief finance officer - H Meiring

|   |                |                |
|---|----------------|----------------|
| Annual Remuneration                             | 541 114        | -              |
| Car Allowance                                   | 98 613         | -              |
| Performance Bonuses                             | -              | -              |
| Contributions to UIF, Medical and Pension Funds | 115 185        | -              |
| Other (SALGA BC)                                | 149            | -              |
| Scare Skills Allowance                          | 62 256         | -              |
| Acting allowance (H Meiring)                    | -              | 199 241        |
|   | <b>817 317</b> | <b>199 241</b> |

This post was vacant and acting allowance was paid to H Meiring.

H Mering was appointed as chief financial officer in the 2016 Financial year.

\* See Note 43

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|  | 2016 | 2015<br>Restated* |
|--|------|-------------------|
|--|------|-------------------|

### 28. Employee related costs (continued)

#### Remuneration of Technical Service Manager: J Basson

|   |                |          |
|---|----------------|----------|
| Annual Remuneration                             | 541 114        | -        |
| Car Allowance                                   | 98 613         | -        |
| Performance Bonuses                             | -              | -        |
| Contributions to UIF, Medical and Pension Funds | 50 242         | -        |
| Other (SALGA BC)                                | 160            | -        |
|   | <b>690 129</b> | <b>-</b> |

Technical Manager J Basson was appointed in the 2016 Financial year.

#### Remuneration of Corporate Manager: J Badenhorst

|   |                |          |
|---|----------------|----------|
| Annual Remuneration                             | 511 500        | -        |
| Car Allowance                                   | 111 825        | -        |
| Performance Bonuses                             | -              | -        |
| Contributions to UIF, Medical and Pension Funds | 165 671        | -        |
| Other (SALGA BC)                                | 160            | -        |
|   | <b>789 156</b> | <b>-</b> |

J Badenhorst was appointed as Corporate Manager in the 2016 Financial year.

#### Remuneration of Municipal Manager JRM Alexander

|   |          |                |
|---|----------|----------------|
| Annual Remuneration                             | -        | 606 921        |
| Car Allowance                                   | -        | 112 107        |
| Contributions to UIF, Medical and Pension Funds | -        | 224 018        |
| Other (SALGA BC)                                | -        | 163            |
|   | <b>-</b> | <b>943 209</b> |

JRM Alexander was the municipal manager from the period 01 JULY 2014 - 30 JUNE 2015.

Mr Stadhouer took over from Mr Alexander in October 2015.

### 29. Remuneration of councillors

|             |                  |                  |
|-------------|------------------|------------------|
| Major       | 1 075 917        | 600 859          |
| Speaker     | 86 555           | -                |
| Councillors | 2 061 569        | 1 368 415        |
|             | <b>3 224 041</b> | <b>1 969 274</b> |

### 30. Depreciation and amortisation

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 25 029 661        | 22 421 639        |
| Intangible assets             | 7 152             | -                 |
|                               | <b>25 036 813</b> | <b>22 421 639</b> |

\* See Note 43



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|   | 2016              | 2015<br>Restated* |
|---|-------------------|-------------------|
| <b>31. Finance costs</b>                  |                   |                   |
| Non-current borrowings                    | 424 328           | 284 931           |
| Trade and other payables                  | 1 037 665         | 36 804            |
| Finance leases                            | 128 056           | 181 285           |
|   | <b>1 590 049</b>  | <b>503 020</b>    |
| <b>32. Debt impairment</b>                |                   |                   |
| Debt impairment                           | 8 928 913         | 6 544 289         |
| <b>33. Bulk purchases</b>                 |                   |                   |
| Electricity                               | 21 813 699        | 14 549 826        |
| Water                                     | 750 520           | 72 821            |
|   | <b>22 564 219</b> | <b>14 622 647</b> |
| <b>34. Contracted services</b>            |                   |                   |
| Information Technology Services           | 1 431 473         | 968 303           |
| Specialist Services                       | 1 687 311         | 1 408 090         |
| Other Contractors                         | 882 294           | 852 048           |
|   | <b>4 001 078</b>  | <b>3 228 441</b>  |
| <b>35. General expenses</b>               |                   |                   |
| Advertising                               | 360 794           | 268 660           |
| Auditors remuneration                     | 4 754 600         | 1 761 786         |
| Bank charges                              | 217 853           | 180 889           |
| Insurance                                 | 71                | -                 |
| IT expenses                               | 243 922           | 532 295           |
| Fuel and oil                              | 996 478           | 832 191           |
| Security (Guarding of municipal property) | 168 283           | 85 934            |
| Travel - local                            | 405 836           | 498 487           |
| Water losses                              | 1 553 632         | 1 346 590         |
| Grant expenditure                         | 2 203 227         | 1 498 860         |
| Ward committee expenditure                | 213 416           | 187 181           |
| Library Development Expense               | 118 904           | 27 233            |
| Sanitation and sewerage                   | 10 687            | 9 712             |
| Other expenses                            | 593 033           | 776 931           |
|   | <b>11 840 736</b> | <b>8 006 749</b>  |

The amounts disclosed above for general expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense.

### 36. Auditors' remuneration

|          |           |           |
|----------|-----------|-----------|
| Expenses | 4 754 600 | 1 761 786 |
|----------|-----------|-----------|

\* See Note 43

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## Notes to the Annual Financial Statements

|  | 2016                     | 2015<br>Restated* |
|--|--------------------------|-------------------|
| <b>37. Operating deficit</b>   |                          |                   |
| Operating deficit for the year is stated after accounting for the following: |                          |                   |
| Amortisation on intangible assets  | 7 152                    | -                 |
| Depreciation on property, plant and equipment                                | 25 029 661               | 22 421 639        |
| Employee costs   | 36 887 311               | 33 957 432        |
| <b>38. Cash generated from operations</b>                                    |                          |                   |
| Deficit  | (25 953 890)             | (12 942 774)      |
| <b>Adjustments for:</b>  |                          |                   |
| Depreciation and amortisation  | 25 094 359               | 22 421 639        |
| Finance costs - Finance leases   | 128 056                  | 181 285           |
| Debt impairment  | 8 928 913                | 6 544 289         |
| Movements in operating lease assets and accruals                             | 1 310                    | 9 599             |
| Movements in retirement benefit assets and liabilities                       | -                        | 986 568           |
| Movements in provisions  | (152 137)                | 284 931           |
| Internal Recoveries  | (33 491)                 | (20 648)          |
| <b>Changes in working capital:</b>   |                          |                   |
| Inventories  | (197 204)                | 96 061            |
| Consumer debtors   | 1 310 236                | 601 759           |
| Other receivables from non-exchange transactions                             | 90 996                   | (1 549 226)       |
| Payables from exchange transactions  | 2 317 250                | (943 789)         |
| VAT  | (999 144)                | 1 487 926         |
| Unspent conditional grants and receipts                                      | 4 549 915                | (364 050)         |
| Consumer deposits  | 65 247                   | 45 410            |
|  | <b>15 150 416</b>        | <b>16 838 980</b> |
| <b>39. Financial instruments disclosure</b>                                  |                          |                   |
| <b>Categories of financial instruments</b>                                   |                          |                   |
| <b>2016</b>  |                          |                   |
| <b>Financial assets</b>  |                          |                   |
|  | <b>At amortised cost</b> | <b>Total</b>      |
| Long term Receivables  | 18 251                   | 18 251            |
| Trade and other receivables from exchange transactions                       | 6 140 250                | 6 140 250         |
| Consumer debtors   | 13 417 979               | 13 417 979        |
| Cash and cash equivalents  | 2 232 578                | 2 232 578         |
| Current portion of Long-term Receivables                                     | 2 856                    | 2 856             |
|  | <b>21 811 914</b>        | <b>21 811 914</b> |
| <b>Financial liabilities</b>   |                          |                   |
|  | <b>At amortised cost</b> | <b>Total</b>      |
| Other financial liabilities  | 734 797                  | 734 797           |
| Trade and other payables from exchange transactions                          | 37 086 731               | 37 086 731        |
| Current portion of Long-term Liabilities                                     | 356 239                  | 356 239           |
|  | <b>38 177 767</b>        | <b>38 177 767</b> |

\* See Note 43

# Siyathemba Local Municipality

(Registration number NC077)

Annual Financial Statements for the year ended 30/06/2016

## Notes to the Annual Financial Statements

|  | 2016 | 2015<br>Restated* |
|--|------|-------------------|
|--|------|-------------------|

### Financial instruments disclosure (continued)

#### 2015

#### Financial assets

|  | At amortised<br>cost | Total             |
|--|----------------------|-------------------|
| Long term Receivables                            | 21 107               | 21 107            |
| Other receivables from non-exchange transactions | 2 464 124            | 2 464 124         |
| Consumer debtors                                 | 5 652 919            | 5 652 919         |
| Cash and cash equivalents                        | 2 910 224            | 2 910 224         |
| Current portion of Long-term Receivables         | 2 482                | 2 482             |
|  | <b>11 050 856</b>    | <b>11 050 856</b> |

#### Financial liabilities

|   | At amortised<br>cost | Total             |
|---|----------------------|-------------------|
| Other financial liabilities                         | 1 091 036            | 1 091 036         |
| Trade and other payables from exchange transactions | 28 672 071           | 28 672 071        |
| Current portion of Long-term Liabilities            | 421 476              | 421 476           |
|   | <b>30 184 583</b>    | <b>30 184 583</b> |

#### 40. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

|                                 |           |           |
|---------------------------------|-----------|-----------|
| • Property, plant and equipment | 4 766 893 | 8 028 323 |
|---------------------------------|-----------|-----------|

##### Total capital commitments

|   |           |           |
|---|-----------|-----------|
| Already contracted for but not provided for | 4 766 893 | 8 028 323 |
|---|-----------|-----------|

#### Authorised operational expenditure

##### Already contracted for but not provided for

|                           |           |   |
|---------------------------|-----------|---|
| • Operational commitments | 1 230 821 | - |
|---------------------------|-----------|---|

##### Total operational commitments

|   |           |   |
|---|-----------|---|
| Already contracted for but not provided for | 1 230 821 | - |
|---|-----------|---|

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

\* See Note 43

# Siyathemba Local Municipality

(Registration number NC077)

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## Notes to the Annual Financial Statements

|  | 2016 | 2015<br>Restated* |
|--|------|-------------------|
|--|------|-------------------|

### 41. Contingencies

A Claim against the municipality was received from Mr. J Van Staden and two others to permanently employee them. The case has been won by the parties but the municipality is currently reviewing the case with the assistance of Du Toit Attorneys to be laid before the CCMA. The liability are estimated at R150 000 (2015: R150 000)

The Municipality instituted a claim against Die Bos (Die Prieska Oranjerivier Oeweroord CC) to take back the ownership of a piece of land previosly rented out for a period of 30 years. It is not clear at this stage if this matter will be opposed or not. The esstimated liability will be in the regiion of R50 000 if the matter is opposed.

### Contingent assets

A claim was instituted by the municipality against Kweza Power (Pty) Ltd for arrear rental amount. The claim has not yet been instituted yet. The asset are estimated at R100 000 (2014:R100 000)

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\* See Note 43

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

|   | 2016   | 2015<br>Restated* |
|---|--|-------------------|
| <b>42. Related parties</b>  |  |                   |
| <b>Relationships</b>  |  |                   |
| Accounting Officer  | Refer to accounting officer's report note 28   |                   |
| Members of key management   | H Meiring<br>J Basson<br>J Badenhorst<br>P. Papier<br>FM. Van Wyk<br>J. Molepe<br>GA. Speelman<br>E. Martin<br>G. Macdonald<br>BA. Titus |                   |
| Councillors   |  |                   |
| <b>Related party balances</b>   |  |                   |
| <b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b> |  |                   |
| FM. Van Wyk - Councillor  | 394  | -                 |
| BA Titus - Councillor   | -  | 2 324             |
| <b>Related party transactions</b>   |  |                   |
| <b>Rates Charges to Councillors</b>   |  |                   |
| P. Papier   | 6 197  | 5 788             |
| GP. Mackay  | 2 652  | 2 323             |
| FM. Van Wyk   | 1 052  | 1 001             |
| J. Molepe   | -  | -                 |
| GA. Speelman  | -  | -                 |
| E. Martin   | 354  | 360               |
| G. Macdonald  | 351  | 327               |
| BA. Titus   | 2 987  | -                 |
| <b>Service Charges to Councillors</b>   |  |                   |
| P. Papier   | 14 590   | 8 790             |
| GP. Mackay  | 7 296  | 5 432             |
| FM. Van Wyk   | 6 139  | 7 691             |
| J. Molepe   | 2 313  | 2 323             |
| E. Martin   | 7 259  | 1 859             |
| G. Macdonald  | 7 881  | 6 296             |
| BA. Titus   | 10 479   | 8 453             |
| <b>Rates Charges to Key Management</b>  |  |                   |
| JJ. Badenhorst  | 11 672   | -                 |
| <b>Service Charges to Key Management</b>  |  |                   |
| JJ. Badenhorst  | 30 913   | 29 408            |
| JRM. Alexander  | -  | 4 993             |
| <b>Sundry Charges to Key Management</b>   |  |                   |
| JJ. Badenhorst  | -  | 11 936            |

\* See Note 43

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Notes to the Annual Financial Statements

Figures in Rand

### 43. Prior period errors

The municipality could not provide reasons suspense accounts which were not cleared at year end, and no supporting documentation was provided to validate the suspense accounts at year end that are included as part of the receivables from non-exchanges transactions. The matter resulted in overstatement of Receivables from Non-exchange Transactions. The municipality also had accounts with no movements which no support could be provided for.

The Operating Lease Receivable was not processed in the general ledger or during preparation of the financial statements.]

The bonus provision was not processed in the general ledger or during preparation of the financial statements

.Leave registers for employees were not updated with compulsory leave taken on 29 December 2014 to 02 January 2015, which resulted in an overstatement of leave provision

Trade payables amount disclosed in the financial statements does not agree to the creditors list, which resulted in an overstatement of payables. The municipality also had accounts with no movement which no support could be provided for.

The municipality incorrectly recorded Equitable share under other income, which resulted Output Vat raised on the Equitable share received. The Prior year was restated by correctly account for Equitable share and reversing the Output Vat Raised

The municipality incorrectly recorded Expense Transactions inclusive of VAT. The Prior year were restated by accounting for the VAT.

The municipality incorrectly recorded Expense Transactions inclusive of VAT.

Difference between the Fixed asset register and financial statements

Difference between the Age analysis and the control accounts

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

|  |   |             |
|--|---|-------------|
| Property, plant and equipment              | - | (3 964 384) |
| Operating Lease Receivables                | - | 9 599       |
| Receivables from Non-exchange Transactions | - | (769 974)   |
| Receivables from Non-exchange Transactions | - | 2 035 126   |
| Payables from Exchange Transactions        | - | (900 512)   |
| VAT Payable                                | - | (41 992)    |
| Employee benefit obligation                | - | 100         |
| Accumulated Surplus                        | - | 5 282 836   |

#### Statement of Financial Performance

|  |   |           |
|--|---|-----------|
| Government Grants and Subsidies Received | - | 43 506    |
| Rental of Facilities and Equipment       | - | 9 599     |
| Other Revenue                            | - | (38 163)  |
| Employee Related Costs                   | - | (257 396) |
| Remuneration of Councillors              | - | (487 275) |
| Collection Costs                         | - | (11 292)  |
| Contracted Services                      | - | 82 200    |
| General Expenses                         | - | (36 459)  |
| Depreciation and Amortisation            | - | 6 369 844 |

\* See Note 43

# Siyathemba Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

### 44. Risk management

#### Financial risk management

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| At 30/06/2016                       | Less than 1<br>year | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5 years |
|-------------------------------------|---------------------|--------------------------|--------------------------|--------------|
| Finance lease liabilities           | 448 332             | 448 332                  | 354 232                  | -            |
| Payables from exchange transactions | 41 747 442          | -                        | -                        | -            |
| At 30/06/2015                       | Less than 1<br>year | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5 years |
| Finance lease liabilities           | 549 532             | 448 332                  | 253 032                  | -            |
| Payables from exchange transactions | 25 924 075          | -                        | -                        | -            |

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

##### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowing.

### 45. Events after the reporting date

No events having financial implications disclosure occurred subsequent to 30 June 2016

### 46. Unauthorised expenditure

|  |                    |                    |
|--|--------------------|--------------------|
| Opening balance  | 112 646 117        | 87 204 179         |
| Unauthorised Expenditure current year.                 | 39 660 480         | 25 441 938         |
| <b>Unauthorised Expenditure awaiting authorisation</b> | <b>152 306 597</b> | <b>112 646 117</b> |

\* See Note 43

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Fruitless and wasteful expenditure

|  |                   |                   |
|--|-------------------|-------------------|
| Opening balance  | 11 625 941        | 11 326 080        |
| Fruitless and Wasteful Expenditure Current year                | 1 244 629         | 299 861           |
| Condoned or written off by council                             | -                 | -                 |
| <b>Fruitless and Wasteful Expenditure awaiting condonement</b> | <b>12 870 570</b> | <b>11 625 941</b> |

### 48. Irregular expenditure

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance                                   | 77 352 887        | 71 594 701        |
| Add: Irregular Expenditure - current year         | 5 488 851         | 5 758 186         |
| <b>Irregular Expenditure Awaiting condonement</b> | <b>82 841 738</b> | <b>77 352 887</b> |

### Analysis of expenditure awaiting condonation per age classification

|              |                   |                   |
|--------------|-------------------|-------------------|
| Current year | 82 841 738        | -                 |
| Prior years  | -                 | 77 352 887        |
|              | <b>82 841 738</b> | <b>77 352 887</b> |

### Details of irregular expenditure – current year

|   | Disciplinary steps taken/criminal proceedings |                  |
|---|---|------------------|
| Various expenditure contrary to SCM policy                      | No steps taken                                | 3 007 874        |
| Irregular Contribution to Council (Overpayment of remuneration) | To be submitted to Council for condonement.   | 487 275          |
| Overtime without approve policy                                 | No steps taken                                | 1 993 702        |
|   |   | <b>5 488 851</b> |

### Details of irregular expenditure recoverable (not condoned)

|   |                  |
|---|------------------|
| Various expenditure contrary to SCM policy                      | 3 007 874        |
| Irregular Contribution to Council (Overpayment of remuneration) | 487 275          |
|   | <b>3 495 149</b> |

### Details of irregular expenditure not recoverable (not condoned)

|                                 |           |
|---------------------------------|-----------|
| Overtime without approve policy | 1 993 702 |
|---------------------------------|-----------|

### 49. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 1 110 000        | 796 316          |
| Current year subscription / fee | 505 578          | 510 000          |
| Amount paid - current year      | -                | (196 316)        |
|                                 | <b>1 615 578</b> | <b>1 110 000</b> |

\* See Note 43



# Siyathemba Local Municipality

(Registration number NC077)

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## Notes to the Annual Financial Statements

Figures in Rand

### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Distribution losses

##### Unaccounted Electricity Losses

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported. The Electricity losses is as follows.

|             |                                |
|-------------|--------------------------------|
| Loss Units: | 3 184 279 (2015: 3 489 651)    |
| Tariff:     | 1.1477 (2015: 0.9693)          |
| Value:      | R 3 654 593 (2015 R 3 382 373) |

##### Unaccounted Water Losses

Water Losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported. The Water losses is as follows

|             |                                |
|-------------|--------------------------------|
| Loss Units: | 826 469 (2015: 860 556)        |
| Tariff:     | 5.0 (2015: 4.5)                |
| Value:      | R 4 132 345 (2015 R 3 872 502) |

##### Audit fees

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 3 798 043        | 3 000 897        |
| Current year subscription / fee | 1 914 086        | 1 162 940        |
| Amount paid - current year      | (778 868)        | (365 794)        |
|                                 | <b>4 933 261</b> | <b>3 798 043</b> |

##### PAYE and UIF

|                                 |                |                |
|---------------------------------|----------------|----------------|
| Opening balance                 | 311 225        | 253 630        |
| Current year Payroll Deductions | 4 478 229      | 3 768 015      |
| Amount paid - current year      | (4 119 302)    | (3 456 790)    |
| Amount paid - previous years    | (311 225)      | (253 630)      |
|                                 | <b>358 927</b> | <b>311 225</b> |

##### Pension and Medical Aid Deductions

|   |                |                |
|---|----------------|----------------|
| Opening balance   | 407 754        | 533 621        |
| Current year Payroll Deductions and Council Contributions | 7 021 916      | 6 686 969      |
| Amount paid - current year                                | (6 537 929)    | (6 279 215)    |
| Amount paid - previous years                              | (407 754)      | (533 621)      |
|   | <b>483 987</b> | <b>407 754</b> |

\* See Note 43

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

|             |           |           |
|-------------|-----------|-----------|
| VAT payable | 2 032 796 | 3 031 940 |
|-------------|-----------|-----------|

VAT output payables and VAT input receivables are shown in note 15.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30/06/2016:

| 30/06/2016  | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R |
|-------------|--|--|------------|
| FM. Van Wyk | 393                                      | -  | 393        |
| 30/06/2015  | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R |
| BA. Titus   | 1 005                                    | 1 319                                    | 2 324      |

During the year the following Councillors' had arrear accounts outstanding for more than 60 days.

| 30/06/2016  | Highest<br>outstanding<br>amount | Aging<br>(in days) |
|-------------|----------------------------------|--------------------|
| FM. Van Wyk | 393                              | 60                 |
| 30/06/2015  | Highest<br>outstanding<br>amount | Aging<br>(in days) |
| BA. Titus   | 1 319                            | 90                 |

### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

#### Reason for deviation

|                |                |                |
|----------------|----------------|----------------|
| Sole suppliers | 164 506        | 226 848        |
| Impractical    | 33 163         | 31 195         |
|                | <b>197 669</b> | <b>258 043</b> |

\* See Note 43

# Siyathemba Local Municipality

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Annual Financial Statements for the year ended 30/06/2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 51. Budget differences

#### Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

#### Property Rates

Property rates of Solar plants not yet implemented.

#### Service charges

Higher consumption

#### Investment revenue

Lower interest rate

#### Transfers recognised- operational

Additional allocation received for MIG

#### Own Revenue

Solar park rentals not realised

#### Employee Cost

Due to aggregate increase in employee related cost

#### Remuneration of Councillors

Due to aggregate increase in Remuneration of Councillors

#### Debt impairment

Lower collection rate on water

#### Depreciation and Asset impairment

Remaining useful life assessment

#### Finance charges

Interest on capital amount outstanding on Eskom

#### Materials and bulk purchases

Increase in the Nersa approval rate to Eskom.

#### Other expenditure

Budget constraints

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\* See Note 43

**APPENDIX A**  
**SIYATHEMBA LOCAL MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2016**

| EXTERNAL LOANS                 | Rate   | Loan Number  | Redeemable | Balance at<br>30 JUNE 2014 | Correction | Balance at<br>30 JUNE 2015<br>Restated | Received<br>during the<br>period | Redeemed<br>written off<br>during the<br>period | Balance at<br>30 JUNE 2016 |
|--------------------------------|--------|--------------|------------|----------------------------|------------|--|----------------------------------|---|----------------------------|
| <b>LEASE LIABILITY</b>         |        |              |            |                            |            |  |                                  |   |                            |
| 315SJ 4x4 loader               | 10%    | Acc 82003555 | 01/02/2019 | 458 192                    | -          | 377 069                                | -                                | (89 529)  | 287 540                    |
| CS533E XL Compactor            | 10%    | Acc 82003806 | 01/02/2019 | 592 516                    | -          | 488 192                                | -                                | (115 498)                                       | 372 693                    |
| Nissan 12 4X2N                 | 10%    | Acc 82306558 | 01/06/2019 | 652 649                    | -          | 547 361                                | -                                | (116 558)                                       | 430 803                    |
| Printers - Nashua 1            | 10.50% | Nashua 1     | 01/10/2015 | 96 001                     | -          | 25 269                                 | -                                | (25 269)  | (0)                        |
| Printers - Nashua 2            | 10.50% | Nashua 2     | 01/11/2015 | 93 000                     | -          | 24 479                                 | -                                | (24 479)  | (0)                        |
| Printers - Nashua 3            | 10.50% | Nashua 3     | 01/09/2015 | 70 500                     | -          | 18 557                                 | -                                | (18 557)  | 0                          |
| Printers - Gestetner (Fintech) | 10.50% | Gestetner    | 01/09/2015 | 120 001                    | -          | 31 586                                 | -                                | (31 586)  | (0)                        |
|                                |        |              |            |                            |            |  |                                  |   | -                          |
| <b>Total Lease Liabilities</b> |        |              |            | <b>1 799 358</b>           | <b>-</b>   | <b>1 512 512</b>                       | <b>-</b>                         | <b>(371 333)</b>                                | <b>1 091 036</b>           |
|                                |        |              |            |                            |            |  |                                  |   |                            |
| <b>TOTAL EXTERNAL LOANS</b>    |        |              |            | <b>1 799 358</b>           | <b>-</b>   | <b>1 512 512</b>                       | <b>-</b>                         | <b>(371 333)</b>                                | <b>1 091 036</b>           |
|                                |        |              |            |                            |            |  |                                  |   |                            |

**APPENDIX B**  
**SIYATHEMBA LOCAL MUNICIPALITY**  
**ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2015**

| Description                  | Cost / Revaluation |           |                       |                    |                        |                 | Accumulated Depreciation / Impairment |           |           |                 | Carrying Value |
|------------------------------|--------------------|-----------|-----------------------|--------------------|------------------------|-----------------|---------------------------------------|-----------|-----------|-----------------|----------------|
|                              | Opening Balance    | Additions | Fair Value Adjustment | Under Construction | Transfers to Inventory | Closing Balance | Opening Balance                       | Additions | Disposals | Closing Balance |                |
| <b>Investment Properties</b> | R                  | R         | R                     | R                  | R                      | R               | R                                     | R         | R         | R               | R              |
| Investment Properties        | 25 584 000         | -         | -                     | -                  | (2 986 000)            | 22 598 000      | -                                     | -         | -         | -               | 22 598 000     |
|                              | 25 584 000         | -         | -                     | -                  | (2 986 000)            | 22 598 000      | -                                     | -         | -         | -               | 22 598 000     |

**APPENDIX B**  
**SIYATHEMBA LOCAL MUNICIPALITY**  
**ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2015**

| Description              | Cost / Revaluation |           |                       |                    |           |                 | Accumulated Depreciation / Impairment |           |           |                 | Carrying Value |
|--------------------------|--------------------|-----------|-----------------------|--------------------|-----------|-----------------|---------------------------------------|-----------|-----------|-----------------|----------------|
|                          | Opening Balance    | Additions | Fair Value Adjustment | Under Construction | Disposals | Closing Balance | Opening Balance                       | Additions | Disposals | Closing Balance |                |
| <b>Intangible Assets</b> | R                  | R         | R                     | R                  | R         | R               | R                                     | R         | R         | R               | R              |
| Computer Software        | 1 427 193          | 28 632    | -                     | -                  | -         | 1 455 825       | 18 936                                | 7 152     | -         | 26 087          | 1 429 738      |
|                          | 1 427 193          | 28 632    | -                     | -                  | -         | 1 455 825       | 18 936                                | 7 152     | -         | 26 087          | 1 429 738      |

**APPENDIX B**  
**SIYATHEMBA LOCAL MUNICIPALITY**  
**ANALYSIS OF HERITAGE ASSETS AS AT 30 JUNE 2015**

| Description          | Cost / Revaluation |           |                       |                    |             |                 | Accumulated Depreciation / Impairment |            |           |                 | Carrying Value |
|----------------------|--------------------|-----------|-----------------------|--------------------|-------------|-----------------|---------------------------------------|------------|-----------|-----------------|----------------|
|                      | Opening Balance    | Additions | Fair Value Adjustment | Under Construction | Disposals   | Closing Balance | Opening Balance                       | Additions  | Disposals | Closing Balance |                |
|                      | R                  | R         | R                     | R                  | R           | R               | R                                     | R          | R         | R               | R              |
| Heritage Assets      | 1 226 200          | -         | -                     | -                  | -           | 1 226 200       | -                                     | -          | -         | -               | 1 226 200      |
| Heritage Assets      | 1 226 200          | -         | -                     | -                  | -           | 1 226 200       | -                                     | -          | -         | -               | 1 226 200      |
|                      |                    |           |                       |                    |             |                 |                                       |            |           |                 |                |
| Total Asset Register | 550 794 270        | 2 439 866 | -                     | -                  | (2 986 000) | 550 248 136.16  | 103 191 776                           | 25 036 812 | -         | 128 228 589     | 422 019 548    |
|                      |                    |           |                       |                    |             |                 |                                       |            |           |                 |                |

**APPENDIX F**  
**SIYATHEMBA LOCAL MUNICIPALITY**  
**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

| Grant Description   | Balance<br>1 JULY 2015 | Correction<br>of error | Restated<br>Balance<br>1 JULY 2015 | Grants<br>Received | Operating<br>Expenditure<br>during the year<br>Transferred<br>to Revenue | Capital<br>Expenditure<br>during the year<br>Transferred<br>to Revenue | Balance<br>30 JUNE 2016 | Unspent<br>30 JUNE 2016<br>(Creditor) | Unpaid<br>30 JUNE 2016<br>(Debtor) |
|---|------------------------|------------------------|------------------------------------|--------------------|--|--|-------------------------|---------------------------------------|------------------------------------|
| <b>UNSPENT AND UNPAID GOVERNMENT GRANTS AND RECEIPTS</b>            | <b>R</b>               | <b>R</b>               | <b>R</b>                           | <b>R</b>           | <b>R</b>   | <b>R</b>   | <b>R</b>                | <b>R</b>                              | <b>R</b>                           |
| <b><u>National Government Grants</u></b>                            |                        |                        |                                    |                    |  |  |                         |                                       |                                    |
| Equitable Share   | -                      | -                      | -                                  | 24 220 000         | 24 220 000   | -  | -                       | -                                     | -                                  |
| Municipal Infrastructure Grant                                      | -                      | -                      | -                                  | 15 654 000         | -  | 12 158 129   | 3 495 871               | 3 495 871                             | -                                  |
| Municipal Systems Improvement Grant                                 | -                      | -                      | -                                  | 930 000            | 930 000  | -  | -                       | -                                     | -                                  |
| Local Government Financial Management Grant (FMG)                   | -                      | -                      | -                                  | 1 875 000          | 1 875 000  | -  | -                       | -                                     | -                                  |
| Integrated National Electrification Grant (INEP)                    | -                      | -                      | -                                  | 1 500 000          | -  | 630 000  | 870 000                 | 870 000                               | -                                  |
| Department of water affairs   | -                      | -                      | -                                  | 2 066 894          | -  | 2 066 894  | -                       | -                                     | -                                  |
| Department of Sports and Culture (Library)                          | 50 128                 | -                      | 50 128                             | 1 370 000          | 1 185 956  | -  | 234 172                 | 234 172                               | -                                  |
| Expanded Public Works Programme Integrated Grant for Municipalities | -                      | -                      | -                                  | 1 000 000          | -  | 1 000 000  | -                       | -                                     | -                                  |
| <b>Total National Government Grants</b>                             | <b>50 128</b>          | <b>-</b>               | <b>50 128</b>                      | <b>48 615 894</b>  | <b>28 210 956</b>  | <b>15 855 023</b>  | <b>4 600 043</b>        | <b>4 600 043</b>                      | <b>-</b>                           |
| <b><u>Provincial Government Grants</u></b>                          |                        |                        |                                    |                    |  |  |                         |                                       |                                    |
| Local Government Sector Education Training Authority                | -                      | -                      | -                                  | 80 233             | 80 233   | -  | -                       | -                                     | -                                  |
| <b>Total Provincial Government Grants</b>                           | <b>-</b>               | <b>-</b>               | <b>-</b>                           | <b>80 233</b>      | <b>80 233</b>  | <b>-</b>   | <b>-</b>                | <b>-</b>                              | <b>-</b>                           |
| <b>Total</b>  | <b>50 128</b>          | <b>-</b>               | <b>50 128</b>                      | <b>48 696 127</b>  | <b>28 291 189</b>  | <b>15 855 023</b>  | <b>4 600 043</b>        | <b>4 600 043</b>                      | <b>-</b>                           |